
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION**

**MINUTES OF MEETING
DECEMBER 14, 2005**

A meeting of the Board of Administration was held on Wednesday, December 14, 2005, CalPERS Auditorium, Lincoln Plaza North, 400 Q Street, Sacramento, California.

The meeting was called to order at 9:05 a.m. by Board President Rob Feckner.

The Secretary called the roll and the following Board members were present:

Rob Feckner, President
Robert Carlson, Vice President
Ron Alvarado
John Hiber representing Philip Angelides
Marjorie Berte
George Diehr
Priya Sara Mathur
Debbie Endsley representing Michael Navarro
Tony Oliveira
Michael Quevedo
Kurato Shimada
Charles Valdes
Nick Smith representing Steve Westly

AGENDA ITEM 3 – ANNOUNCEMENT OF CLOSED SESSION

President Feckner announced that a Closed Session of the Board of Administration would not be held. President Feckner also announced a Resolution presentation and reception would be held and a 10:00 a.m. time certain for the Executive Compensation interviews.

AGENDA ITEM 4 – APPROVAL OF THE NOVEMBER 16, 2005 MEETING MINUTES

ON MOTION by Ms. Mathur, **SECONDED** and **CARRIED**, the Board approved the minutes of the November 16, 2005 meeting with one editorial change.

AGENDA ITEM 10 – PERFORMANCE AND COMPENSATION COMMITTEE

President Feckner announced Agenda Item 10 will be taken up out of order.

Priya Mathur, Acting Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Friday, December 9, 2005.

Additional information may be found in the December 9, 2005 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ❖ First Quarter Status Reports on the Performance Plans of the Chief Executive Officer, Chief Actuary, Chief Investment Officer, and his direct reporting staff
- ❖ Changes in the Performance Plans of the Chief Actuary, Senior Investment Officer, Global Equities; and Senior Investment Officer, Fixed Income
- ❖ First Reading of the 2005-2006 Performance Plan for recently appointed Senior Portfolio Manager, Corporate Governance
- ❖ Proposed revisions to the Performance Evaluation process for the Chief Executive Officer and other Board direct reports
- ❖ Three firms as finalists for the Executive Compensation Consultant contract, to interview all finalists, and conduct the interviews on December 14, 2005

The next meeting of the Committee is scheduled for February 10, 2006 in Sacramento, California.

AGENDA ITEM 5 – CHIEF INVESTMENT OFFICER’S/ASSISTANT EXECUTIVE OFFICER’S REPORT

Mark Anson, Chief Investment Officer, presented this report to the Board.

The Federal Reserve System raised interest rates again to the short-term overnight rate of 4.25 percent. This is the 13th rate hike over the last 18 months. With year over year inflation running in the range of 4 to 4.5 percent, it is clear the Federal Reserve remains vigilant to keep a lid on inflation. The next meeting of the Federal Reserve System is January 31, 2006.

Earlier this month, the European Central Bank also raised interest rates for the first time in five years, from 2 to 2.25 percent.

As a result of the raising interest rates, staff is more cautious in the bond market. While CalPERS remains cautious in the bond market, we still have a slight overweight in the equity market and staff will continue on that path.

CalPERS is at \$200 billion.

AGENDA ITEM 6 – INVESTMENT COMMITTEE

Charles Valdes, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, December 12, 2005. The Chief Investment Officer announced a major milestone was reached when the total fund market value surpassed \$200 billion.

Additional information may be found in the December 12, 2005 agenda materials and/or transcripts of the Committee meeting.

The Board accepted the Committee Summary report (attached).

The next meeting of the Committee is scheduled for February 14, 2006 in Sacramento, California.

AGENDA ITEM 7 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

Kurato Shimada, Chair, Benefits and Program Administration Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 13, 2005.

Additional information may be found in the December 13, 2005 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ❖ To sponsor legislation to make clarifying and technical amendments to Government Code provisions administered by CalPERS
- ❖ To accept the EFI's report on the June 30, 2003 parallel valuation and certification of the actuarial valuation of all contracting public agency plans in completion of Task 1 of Contract 2003-3236

The next meeting of the Committee is scheduled for February 15, 2006 in Sacramento, California.

AGENDA ITEM 8 – HEALTH BENEFITS COMMITTEE

George Diehr, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 13, 2005.

Additional information may be found in the December 13, 2005 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ❖ To award Contract No. 2005-3789 (formerly RFP # 2004-3521), Pharmacy Benefit Manager, to Medco Health Solutions, Inc.
- ❖ To extend the current Medstat contract for an additional two years
- ❖ To proceed with the Request for Proposal to select a pool of consultants and to bring the finalists to the Health Benefits Committee for interviews and selection using a point scoring system of 200 for fee proposal, 250 for staff's evaluation, and 250 for the Committee's evaluation. John Hiber, representing Philip Angelides, abstained.

The next meeting of the Committee is scheduled for February 15, 2006 in Sacramento, California.

AGENDA ITEM 9 – FINANCE COMMITTEE

Robert Carlson, Chair, Finance Committee, presented the Committee Summary report to the Board. The Committee met on Friday, December 9, 2005.

Additional information may be found in the December 9, 2005 agenda materials and/or transcripts of the Committee meeting.

On motions by the Committee, the Board approved the following:

- ❖ 2005-06 Annual Plan – First Quarter Update
- ❖ First reading of fiscal year 2005-06 mid-year budget revisions
- ❖ First reading of fiscal year 2005-06 mid-year budget revisions
- ❖ Budget Expenditure Report for the first quarter of fiscal year 2005-2006 and the Letter of Transmittal

(Item noted out of sequence) After the recess, Mr. Carlson made a correction on Item 9 of the Committee Summary report. The motion was incorrect. The correct motion follows:

The Committee recommends and I move the Board approve the Budget Expenditure Report for the first quarter of fiscal year 2005-2006 and the Letter of Transmittal.

- ❖ Annual Report for the Disabled Veteran Business Enterprise contract participation for 2004-05

The next Committee meeting is scheduled for February 10, 2006 in Sacramento, California.

AGENDA ITEM 11 – AD HOC BOARD GOVERNANCE COMMITTEE

Rob Feckner, Chair, Ad Hoc Board Governance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, December 13, 2005.

Additional information may be found in the December 13, 2005 agenda materials and/or transcripts of the Committee meeting.

The next Committee meeting is scheduled for February 14, 2006 in Sacramento, California.

AGENDA ITEM 12– BOARD MEETING CALENDAR

Fred Buenrostro presented this item to the Board. Mr. Buenrostro noted the Board's annual offsite in January at the Marriott Hotel in Napa, California.

AGENDA ITEM 13 – CHIEF EXECUTIVE OFFICER’S REPORT

Fred Buenrostro restated the January Board annual offsite in Napa, California.

AGENDA ITEM 15 – BOARD’S STATE LEGISLATIVE PROGRAM/BOARD’S POSITION ON STATE LEGISLATION

(15b) Staff gave an oral update to the proposed agreement between the State and case Bargaining Unit 2 Attorneys. Conflicts in law, both the PERL and PEMHCA, would need to be resolved if this MOU were to move forward.

Two audience members spoke on 15b:

Donna Snodgrass, California State Employees’ Association

Ray Snodgrass, CDF Firefighters

AGENDA ITEM 16 – BOARD’S FEDERAL LEGISLATIVE PROGRAM/BOARD’S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Legislative Liaison, presented this report via telephone, providing an update on the following issue:

- Pension Reform legislation

President Feckner then announced outgoing Board member Willie L. Brown, Jr. and presented a CalPERS Board of Administration Resolution to Mr. Brown. Mr. Brown accepted the Resolution and addressed the Board members, CalPERS staff, and audience. A recess was taken for Mr. Brown’s reception.

AGENDA ITEM 14 – EXECUTIVE COMPENSATION CONSULTANT RFP: INTERVIEW OF FINALISTS AND AWARD OF CONTRACT

The Secretary called the roll for the Executive Compensation Consultant RFP Interviews of Finalists and the following Board members were present:

Rob Feckner, President
Robert Carlson, Vice President
Ron Alvarado
John Hiber representing Philip Angelides
Marjorie Berte
George Diehr
Priya Sara Mathur
Debbie Endsley representing Michael Navarro
Tony Oliveira
Michael Quevedo
Kurato Shimada
Charles Valdes
Nick Smith representing Steve Westly

Executive Compensation Consultant RFP Interviews of Finalists commenced followed by the award of contract.

AGENDA ITEM 17 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

ON MOTION by Mr. Valdes, **SECONDED** and **CARRIED**, the Board adopted staff's recommendations on item A (matter of Bonnie S. Easley) and item C (matter of Lesley B. Curtis).

ON MOTION by Mr. Diehr, **SECONDED** and **CARRIED**, the Board moved 17B (matter of Hobart G. Hamilton) to a full Board hearing.

AGENDA ITEM 18 – PETITION FOR RECONSIDERATION

ON MOTION by Mr. Valdes, **SECONDED** and **CARRIED**, the Board moved staff recommendation on all items except for those which may be withdrawn.

AGENDA ITEM 19 – GENERAL COUNSEL'S REPORT

Peter Mixon reported on two items: (1) CalPERS versus the New York Stock Exchange and the New York Stock Exchange Specialists and (2) Annual Ethics Workshop in February.

AGENDA ITEM 20 – BOARD TRAVEL APPROVALS

ON MOTION by Ms. Berte, **SECONDED** and **CARRIED**, the Board approved travel request item A1. John Hiber, representing Philip Angelides, voted no.

ON MOTION by Ms. Berte, **SECONDED** and **CARRIED**, the Board approved travel request item A2.

AGENDA ITEM 19 – DRAFT AGENDA FOR FEBRUARY 16, 2006 MEETING

The Board accepted the draft February 16, 2006 meeting agenda as presented.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:15 p.m.